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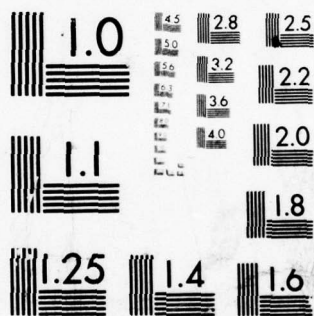
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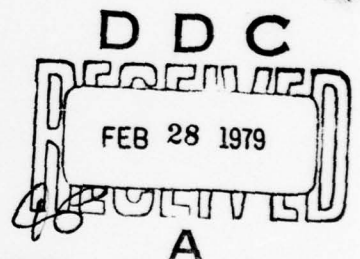
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THESIS



A REVIEW OF THE MATERIAL REQUISITION BILLING
PROCESS - AN IDA APPROACH

by

John R. McGraa

December 1978

Thesis Advisor:

Shu S. Liao

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A Review of the Material Requisition Billing Process -
An IDA Approach

by

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Commander, Supply Corps, United States Navy
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Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

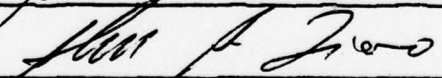
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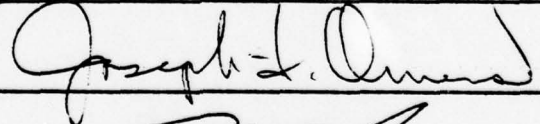
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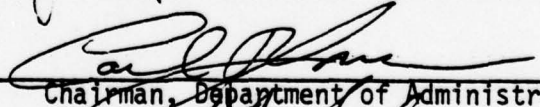
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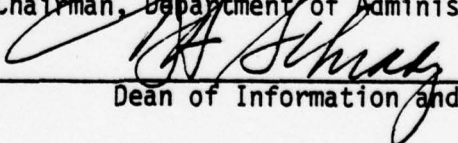
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ABSTRACT

This thesis presents a general review of the implementation of the Integrated Disbursing and Accounting (IDA) Project as it relates to the material requisition billing process. The manner in which the material requisition billing process was conducted before and after IDA implementation is reviewed. The primary goal of Project IDA was the improvement in the timeliness and accuracy of financial information. The specific purpose of the thesis is to determine whether or not IDA goals are being achieved. This thesis resolved that the initial IDA implementation achieved those goals with respect to procurement and to blanket purchase agreements. Additional procedures are required which will include imprest fund and referral transactions. The thesis concludes with a discussion on areas that, subject to additional procedure changes, might further improve the timeliness of financial information processing.

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TABLE OF ABBREVIATIONS

AAA	Authorized Accounting Activity
BPA	Blanket Purchase Agreement
CDO	Central Disbursing Office
COD	Collect on Delivery
FAA	Fund Administering Activity
FIPC	Financial Information Processing Center
ICP	Inventory Control Point
IDA	Integrated Disbursing and Accounting
NAFC	Navy Accounting and Finance Center
NAS	Naval Air Station
NPS	Naval Postgraduate School
NRFC	Naval Regional Finance Center
NS	Naval Station
NSC	Naval Supply Center
SPCC	Ships Parts Control Center
UDAPS	Uniform Automated Data Processing System

I. INTRODUCTION

This chapter states the general problem and the objective and need for the thesis. Additionally, the methodology used to review the problem area and the overall scope of the thesis is discussed.

A. PROBLEM

A major deficiency that exists in data processing today is the inability to transmit meaningful, timely and accurate financial information for decision making purposes. This is especially true in large scale organizations such as the federal sector. Numerous filters exist that both slow down and distort, if not completely change, the meaning of communicated information between the lowest and the highest levels of management. This is true whether the information communicated is verbal, written, statistical, managerial or financial.

Within the Department of the Navy, methods of communicating financial information has been under continuous review and change. The goal of these various changes has always been to improve the development, processing and use of financial information with respect to the most efficient and effective use of limited resources.

One major deficiency that has caused severe distortion of financial information within the Navy has been the structure through which information has been processed. This structure required the disbursing function to remain separate and distinct from the accounting system. For example, payment of bills was conducted through a disbursing activity while accounting for those payments was conducted by an accounting activity. Each organization had unique processing procedures, time-frames and required supporting

documentation. Accordingly, activity financial records that resulted from the interaction of both organizations were consistently out of date and incomplete.

B. OBJECTIVE OF AND NEED FOR THE STUDY

The Integrated Disbursing and Accounting (IDA) approach was developed by the Comptroller of the Navy to combat these deficiencies by significantly improving the timeliness and accuracy of financial information processing and reporting. Project IDA is currently being implemented. The objective of this study was directed toward one facet of Project IDA: the review of material requisition billing procedures. IDA procedures were to insure that payment of the bills occur within a time-frame that continues to satisfy the vendor. Further, the accounting for the related expenditure of funds must promote greater accuracy, completeness and timeliness in financial management reporting that previously did not exist. The IDA General Design Manual defines acceptable long range goals for processing and reporting time-frames as follows:

1. Update of Fund Administering Activity (FAA) accounting records (i.e., payment of vendor bill and associated entry of related expenditure) is to occur on a daily basis.
2. Transmission of summarized activity financial data to the departmental level should occur within five days following the end of the reporting period. This contrasts with a 30-90 day time-frame for FAA accounting records and a 45-day time-frame for reporting to the departmental levels under pre-IDA procedures. The goal of this thesis was to determine whether or not IDA implementation, as it relates to the material requisition billing process, was achieving the desired improvements in the timeliness and accuracy of financial information.

C. METHODOLOGY

The processing of material requisition billing plays an integral role in the above mentioned time-frame goals of Project IDA. A basic knowledge and understanding of a number of factors was considered essential to the development of the thesis objective. These factors are outlined as follows:

1. Who were the players in processing material requisition billings?
2. What classification of material requisitions existed?
3. What were the guidelines provided by the IDA General Design Manual with respect to the material requisition billing process?
4. How was material requisition billing processed prior to IDA implementation?
5. What were the shortcomings experienced under those procedures?
6. To what degree are the shortcomings resolved by implementation of IDA?
7. To what degree are IDA goals relating to material requisition billing still deficient?
8. What plans are in effect to resolve those areas and to what degree are they expected to be resolved?

The method used to research those questions and to develop the thesis included personal contact and telephone interviews with representatives from the following Commands:

- Naval Postgraduate School (NPS), Monterey, California
- Naval Supply Center (NSC), Oakland, California
- Naval Station (NS), San Diego, California
- Naval Supply Center (NSC), San Diego, California

Naval Air Station (NAS), Memphis, Tennessee

Naval Air Station (NAS), Pensacola, Florida

Ships Parts Control Center (SPCC), Mechanicsburg, Pennsylvania

Navy Accounting and Finance Center (NAFC), Washington, D.C.

Chapter II will review the pre-IDA material requisition billing process and explore the manner in which the process contributed to financial information delays and undistributed disbursements. Chapter III will discuss the initial IDA implementation, the deficiencies that were resolved, and those remaining as problems. Chapter IV will present a review of long-range plans that are being developed to correct the remaining problem areas. Chapter V will conclude the thesis with a summary of the IDA implementation review and a presentation of topics that might further improve the processing of financial information.

C. SCOPE OF THE STUDY

The spectrum of material requisition billing processing includes commercial vendors and a large number of government agencies, i.e., Navy, Army, Air Force, Defense Logistic Agency and General Services Administration. Discussion of significant procedural changes with activities outside of the Navy Department was considered impractical. Accordingly, the thesis review was confined to transactions relating to commercial vendors and the Navy activities contacted by the author and listed above.

II. BACKGROUND RESEARCH

Before a meaningful review of material requisition billing procedures implemented by Project IDA could be conducted, a basic knowledge of pre-IDA procedures and the manner in which those procedures contributed to poor financial processing was required. This knowledge was necessary so that both sets of procedures could be understood and compared and their related deficiencies and improvements could be evaluated. The following sections provide the background information that will act as the basis for that understanding and comparison.

A. THE ACTIVITIES INVOLVED IN PROCESSING MATERIAL REQUISITION BILLINGS

1. Fund Administering Activity (FAA)

The local activity that is assigned the responsibility of budgeting, accounting and reporting for and conducting programs; and for controlling the obligation and expenditure of funds allocated to finance those programs.

2. Regional Supply or Ordering Activity

The organization that is responsible for ordering and stocking material for issue to customer activities within a specified region.

3. Local Supply Activity

The organization within the Fund Administering Activity assigned the responsibility of ordering, stocking and issuing material at the local level both for the Fund Administering Activity and other Commands in the local area.

4. Fund Administrator

The function within the Fund Administering Activity specifically responsible for budget formulation and execution, and accounting

for allocated funds. The Comptroller Department performs this function.

5. Inventory Control Point (ICP)

The activities that have responsibility for managing, ordering, receipt, storage and distribution of material. (ICPs do not necessarily physically control the storage of material.)

6. Stock Point

The activities responsible for the physical receipt, storage and distribution of material.

7. Authorized Accounting Activity (AAA)

The activity responsible for providing accounting services to Fund Administering Activities within a region.

8. Navy Regional Finance Center (NRFC)

The activity responsible for payment of vendor invoices and the provision of accounting services to the AAAs within a specified region.

B. CLASSIFICATION OF MATERIAL REQUISITIONS

In order to understand the material requisition process, the definitions of the basic classification of material requisitions are required. Exhibit 1 shows two basic classifications of material requisitions.

1. Commercial Vendor Transactions

Within the commercial spectrum, three basic procurement processes exist: Purchase Orders, Blanket Purchase Agreements, and Imprest Fund transactions, including Collect on Deliveries (COD) transactions.

a. Purchase Orders

When a request is made for material for which the Ordering Activity determines that open purchase is appropriate, a competitive bid is invited from a number of vendors. The purchase order is awarded to

the low bidder. Upon delivery or shipment of the material to the ordering activity, the dealer then bills for the material.

b. Blanket Purchase Agreement (BPA)

A Blanket Purchase Agreement (BPA) is made with a number of vendors for fast moving locally available material. Order and delivery usually occur within the same time-frame. At the end of a period, the vendor submits a single billing that incorporates charges for all deliveries of material that occurred during the billing period.

c. Imprest Fund

An Imprest Fund Purchase is a transaction that occurs when an immediate need exists for material. The ordering activity arranges with a vendor for a specific quantity and price and the vendor receives payment in full upon delivery of the material. Payment is generally made at the premises of the vendor.

d. Collect on Delivery (COD)

A COD occurs when delivery of material occurs at the ordering activity and payment for the material is made at that time. For purposes of this thesis, COD is included as a type of Imprest Fund transaction.

2. Standard Stock Transactions

The second classification of material requisition is standard stock transactions. There are two basic types: local issues of material and requests for material that are currently not locally available.

a. Local Issues

This first category occurs in four basic ways, each of which has its own material billing process. They are issues from main stock, issues from a Servmart, issues from a ready supply store and issues from a shop store.

(1) Issues from Main Stock. Issue from main stock transactions occur when the local supply activity provides material from the main stock warehouse. The customer is billed on the basis of issue. (The other three categories are similar in that materials for issue are grouped in areas other than the main stock warehouse.)

(2) Issues from Servmart. In the case of Servmart, fast-moving low-cost items are centrally located in an area convenient to the majority of the supply activity customers. Customers normally submit money-value-only-requisitions for the items required. Servmarts summarize the completed requisitions on a periodic basis and forward them to the main supply activity. The supply activity bills the customer activity for the material.

(3) Issues from Ready Supply Stores. Ready Supply Stores work on a similar basis with Servmart. The difference is that the Retail Supply Store is located away from the area of the supply activity at a large customer activity for the convenience of the customer. While the material located within the store belongs to the supply activity, the store itself is usually operated by customer personnel. On a periodic basis, the customer activity summarizes all issues and sends them to the supply activity who bills the customer activity.

(4) Issues from Shop Stores. A shop store provides fast-moving low-cost material to a specific organizational unit of a command, i.e., the Public Works Department. On a periodic basis, issues are batched and forwarded to the supply activity who in turn bills the customer for the material issued.

b. Not in Stock/Not Carried Material

The second basic type of standard stock transaction is the issue of material that is not locally available. For material currently

not in stock, the material is eventually received by the supply activity as stock and issued to the customer. The billing procedure is handled in the same manner as a local issue from stock. If, on the other hand, the customer's requisition is passed to an inventory control point for issue directly to the customer, the issue and billing procedure will be handled as an issue of material not locally carried in stock. When requisitions are received by a supply activity for material that is not carried in stock, but is carried in the supply system, the supply activity will pass the requisition to the appropriate Inventory Control Point (ICP). The ICP will process the requisition to a stock point for issue, unless a direct buy must be made for direct shipment to the FAA, and will bill the customer for the material. This type of transaction is classified as a referral.

C. MATERIAL REQUISITION BILLING PROCEDURES PRIOR TO IDA IMPLEMENTATION

The first two sections of this chapter identified in general terms the activities involved in the material requisition billing process and the types of material requisitions that existed. This section discusses the material requisition billing process and its related deficiencies which were in effect prior to IDA.

The material requisition billing process began with the activity that provided the material. The bill was processed so that payment was made and customer activity accounting records were updated. Prior to IDA implementation, the billing process was essentially conducted by the FAA, the AAA and the NRFC. Exhibits 2 through 6 describe the requisition process which includes the presentation of the requisition for issue, the receipt of the material, the billing process and the update of the official accounting records. The significant highlights of these Exhibits are discussed in the next section.

D. SHORTCOMINGS EXPERIENCED UNDER PRE-IDA PROCEDURES

As previously stated, a serious deficiency has existed within the Navy Department concerning inaccurate and untimely financial information. Inaccuracy resulted primarily from undistributed disbursements and processing errors. Untimeliness resulted from delays in financial information processing caused by the configuration of the material requisition billing processing system.

Undistributed disbursements represent funds that have been disbursed and recorded at the appropriation level by the NRFC but not recorded by the AAA on the official accounting records of the FAA during the same accounting period. The method in which the disbursement occurs varies between the commercial and standard stock transactions. The disbursement for a commercial transaction occurs when the NRFC pays the vendor's invoice. The disbursement for a standard stock transaction occurs when the NRFC processes a transfer between appropriations. In both instances, the disbursement (cash payment or transfer between appropriations) remains undistributed (unrecorded on the official accounting records of the FAA) until processed by the AAA. According to the IDA General Design Manual, undistributed disbursements within the Navy totalled approximately \$2 Billion¹ at any one point in time.

The procedures outlined in Exhibits 2 - 6 were developed from information received from NPS Monterey, NS San Diego and NAS Memphis. Each of the activities processed material requisitions in essentially the same manner

¹Integrated Disbursing and Accounting Manual (NAVSOP-3583), Chapter 1, pp. 1-6.

with minor variances. Problems regarding the existence of inaccurate and untimely information was developed by reference to the IDA General Design Manual and confirmed by the above three contacted activities.

1. Commercial Transactions

Commercial transactions are illustrated by Exhibits 2, 3 and 4. In the case of procurement and BPA transactions, vendor invoices were processed by the FAA and forwarded to the NRFC. The NRFC made payment to the vendor and recorded the payment at the appropriation level. The NRFC then forwarded the disbursement information to the AAA so that it could be recorded on the official accounting records of the FAA.

The physical and organizational separation of the NRFC and the AAA resulted in duplicate recording of data and file maintenance with respect to material receipt and disbursement information. For example, both NRFCs and AAAs maintained hard copy files of receipts and disbursements. Both activities processed transactions and recorded disbursements on accounting records. In effect, each activity operated with their own financial information data base and maintained their own supporting hard copy files. These factors caused financial information processing delays of around 60-120 days from the time the disbursement was made by the NRFC until it was recorded by the AAA on the official accounting records of the FAA. This time delay caused a significant amount of undistributed disbursements.

A second cause of the delay in financial information processing was the dependence by all activities (FAA, AAA and NRFC) on hard copy documentation and the related mailing time involved. The use of hard copy documentation was not confined to the material requisition billing process. It existed throughout the whole requisition process as evidenced by continuous transmission of documents from the FAA Comptroller to the AAA to establish obligations and accounts payable.

The dependence on hard copy documentation was expensive and aggravated financial information processing delays. The material and clerical costs for preparation, transmission, processing and file maintenance were very high. Hard copy documentation contributed to processing delays because postal and internal transit times in addition to processing times were required for each activity in the chain of events.

While organizational make-up and hard copy documentation served as the major causes in the time delay of processing financial information, a number of secondary causes further exacerbated the situation. They include local processing delays, limitation of resources and conflict of priorities.

Local processing delays are frequently caused by the inability of the individual activity to meet its processing schedule. Failure to meet processing schedules occur for several reasons. Incorrect input might be provided for processing. Information received might be incorrectly processed and needed correction. Information might be received in a format that was non-usable and needed to be converted to a different format.

Limitation of resources will always be a contributing factor to time delays. Obtaining and retaining adequately trained personnel who are capable of processing information accurately and efficiently is a very difficult and continuing problem.

Conflicts in priorities can occur in at least two ways. First, there is the conflict between processing detail records into the system and the need to stop that processing and prepare required reports. A second, and more general, conflict occurs when an activity has more than one basic mission or must share ADP support with other functions of the activity mission. The question that always exists is "Who has priority?"

Imprest fund transactions are illustrated in Exhibit 4 and caused essentially the same problems as procurement and BPA transactions. The significant difference is that imprest fund invoices are paid by the local supply department rather than the NRFC. The vendor receives payment much sooner than under the other procedure. The time-frame for processing the disbursement onto the FAA's official accounting record is extended by 3-5 days due to the additional processing time for reimbursement of the imprest fund by the local disbursing office. The total money value of imprest fund transactions is small. Accordingly, it does not significantly contribute to undistributed disbursements.

2. Standard Stock Transactions

Standard stock transactions are illustrated by Exhibits 5 and 6. Local issues, as illustrated by Exhibit 5, include issues from main stock, Servmart, ready supply stores and shop stores. Local issues were processed from the commitment stage through the disbursement more rapidly than all other transactions. This occurs because UDAPS programs automatically generate commitment, obligation, accounts payable and disbursement entries when the supply issue is processed. As can best be determined, local issues have not been a contributing factor to processing delays and undistributed disbursements.

Referral requisition processing is illustrated by Exhibit 6. Referral requisitions include both intra-Navy and interdepartmental transactions, i.e., Army, Air Force, Defense Logistics Agency and General Services Administration. This category of requisition, due to the volume of transactions and amount of associated funds, constitutes the major cause of undistributed disbursements.

Once the requisition was referred to an ICP and the material was ultimately issued from a stock point, the ICP issued a billing. The billing

was forwarded to the NRFC serving the AAA responsible for maintaining the official accounting records of the FAA initially submitting the requisition. The NRFC processed a transfer of funds at the appropriation level. This transfer reduced the funds of the FAA and increased the funds of the appropriate Stock Fund. As explained earlier, this transfer of funds is the disbursement which the NRFC forwarded to the AAA so that the FAA's official accounting records could be updated. Delays of 90-120 days normally occurred from the time the ICP initiated the billing process until a disbursement was processed on the official accounting records of the FAA.

As was the case for commercial transactions, there were a number of secondary causes that contributed to further delays in financial information processing. These secondary causes were discussed in the procurement and BPA area and do not require further discussion.

Material requisition billing procedures prior to IDA implementation contributed significantly to undistributed disbursements and delays in the processing of financial information. A main cause for these deficiencies was the configuration of the processing system. A second major cause was the dependence by all activities on hard copy transmission and file maintenance. Other secondary causes, such as local processing delays, resource limitations and priority conflicts were mentioned.

The bottom line of these deficiencies is that undistributed disbursements totalled about \$2 Billion, a situation that caused much antagonism and confusion within the Navy Department and between the Navy and Congress. Referral requisitions were the major contributor to the undistributed disbursements.

III. CURRENT PRACTICES

A. IDA GOALS WITH RESPECT TO THE MATERIAL REQUISITION BILLING PROCESS

The primary goal of IDA in the material requisition billing process is the elimination of undistributed disbursements and a substantial reduction in financial information processing delays. Chapter II concluded that one of the primary causes of undistributed disbursements was the physical and organizational separation of NRFC and AAA functions. The organizational separation is obvious. The physical separation requires further explanation.

A primary disbursing service which a NRFC provides to a FAA is the payment of vendors' bills. Disbursement information is then provided to the AAA so that the FAA's official accounting records can be updated. As an example, the NRFC could be located in Virginia, the AAA in Florida, and the FAA in Mississippi. This physical separation requires extensive dependence on postal service for numerous transmissions of hard copy documentation among all three of the activities. Additionally, use of hard copy documents required retention, processing and filing at each of the activities.

While the organizational separation is obvious, one of the effects of that separation is the use by each activity of its own data base of information. The use of a separate data base by each activity causes multiple recording, processing and filing of the same detail data not only by the NRFC and the AAA, but also by the FAA.

The combined effect of the physical and organizational separation, the use of separate data bases and the dependence on hard copy documentation caused two significant deficiencies. First, undistributed disbursements totalled approximately \$2 Billion; and second, a time delay of

60-120 days between the time the disbursement was made and the time it was recorded by the AAA on the official accounting records of the FAA.

The method by which the IDA goals were planned to be achieved are summarized as follows:

1. Consolidate disbursing and accounting functions and have them performed by a single organization. This action would require an NRFC to absorb AAA functions. Additionally, some of the larger AAAs would absorb NRFC disbursing functions, i.e., payment of vendors' bills. The functions of the numerous smaller AAAs would be absorbed by the NRFCs and larger AAA organizations. The new organization would be called a Financial Information Processing Center (FIPC). FIPCs would provide payment of vendor bills and accounting services to FAAs within a specified region.

2. Establish a single organization that would permit the use of a single data base, in effect, an integrated data base. Only one entry would be required to effect vendor payment and to update the FAA accounting record with the resulting disbursement.

3. Reduce the need for multiple hard copy transmission, processing and filing.

4. Use teleprocessing and automatic data processing for transmission of financial information.

5. Change the processing system so that the basic initial accounting record will be the basis for financial reporting and disbursing.

6. Require that the official accounting records be updated on a 24-hour basis and that month-end reporting to higher management levels be provided within 5 days after the end of the month.

The estimated benefits that will accrue at all levels of management as the result of total IDA implementation are as follows:

- A 10-year net savings of \$30 Million
- A savings of approximately 1000 civilian ceiling points by Fiscal Year 1982
- Significant reductions in financial information processing delays
- A major reduction, if not total elimination, of undistributed disbursements.

The following paragraph provides the specific guidelines presented by the IDA General Design Manual concerning the material requisition billing process:

"The material billing process will be accomplished through the use of telecommunication methods to the maximum extent possible. The FIPC will interface with the Navy Supply System for material requisitions. When the FIPC is also a Supply Activity for the same Fund Administering Activity, the FIPC data base will interface with the Supply processing. This permits the same source transaction to support both the financial and supply functions of the FIPC. In those instances where the Fund Administering Activity's FIPC is not a supply activity, the existing normal material requisition supply activity will be utilized. In addition, the Fund Administering Activity is responsible for entering the financial data to the appropriate FIPC. An alternative to this procedure may be authorized and will permit the Fund Administering Activity to generate a requisition to the supply activity only (nothing forwarded to the FIPC). The supply activity will automatically generate input to the FIPC for obligation (consignments established) or simultaneous obligation/expenditure (orders filled from stock). This input will be in a mechanized media on a periodic basis. This procedure will eliminate the requirement for the Fund Administering Activity to submit copies of requisitions to two different activities and the requirement to match expenditures to a pre-established obligation for those orders filled by the local supply activity. Material requisitioned direct from the Navy supply system (i.e., not in stock requisitions to be shipped directly to the customer and not carried requisitions) and filled from Navy Stock Account Inventory is billed in machine readable format directly to the customer's FIPC. The charges are posted to the customer's records of obligations in the FIPC rejecting to the FIPC suspense file those transactions that did not match valid accounts. The FIPC will initiate any adjustment on unmatched items. The corrections or adjustments appear with subsequent billing transactions transmitted by the billing activity and clear the FIPC suspense file. The filling supply activity prepares a material charges and credits summary and forwards it to the FIPC where it is automatically compared with the detail of stock fund billing generated charge transactions posted by the FIPC during the month. The frequency of this

summary of charges and credits will be determined at a later date, anticipating a more frequent schedule than the monthly billing system now in effect. The long range goal is that this will occur on a 24-hour basis."²

B. MATERIAL REQUISITION BILLINGS PROCEDURES AFTER INITIAL IDA IMPLEMENTATION

The initial IDA implementation caused significant changes in the manner procurement and BPA transactions were processed. Exhibits 7 and 8 illustrate the manner in which those transactions were processed under IDA. Two major changes are worthy of mention. The most significant procedural change was the replacement of the NRFC and the AAA by the FIPC. Exhibits 2 and 3 illustrate that the FAA processed vendors' invoices to the NRFC for payment. The NRFC then sent a check to the vendor and disbursement information to the AAA. The AAA, upon receipt of the disbursement information, processed it onto the FAA's official accounting records. As previously noted, this procedure contributed to undistributed disbursements and significant delays in the processing of financial information. Exhibits 7 and 8 illustrate that the FAA can now forward the vendors' invoices to the FIPC, not only for payment to the vendor, but also for the FAA's official accounting record update.

The second significant procedural change is evident from a comparison of Exhibits 2 and 3 with 7 and 8. In Exhibits 2 and 3, the FAA Comptroller forwarded obligation and accounts payable documents to the AAA for entry onto the FAA's official accounting records. This action required the FAA to continually reconcile local memorandum accounting records to ensure that the transactions that were forwarded to the AAA were correctly entered on the official accounting records. Significant time was spent on that endeavor alone. Review of Exhibits 7 and 8 reveals that the

²Integrated Disbursing and Accounting Manual (NAVSOP-3583), Chapter 3, Paragraph 4, pp. 3-2, 13.

FAA now has direct computer access to their official accounting records maintained by the FIPC.

C. DEGREE TO WHICH UNDISTRIBUTED DISBURSEMENTS AND DELAYS IN FINANCIAL INFORMATION PROCESSING WERE RESOLVED BY THE INITIAL IDA IMPLEMENTATION

The success or failure of the initial IDA implementation can be measured in terms of the reduction or elimination of both undistributed disbursements and continuous delays in the processing of financial information. The effect of the changes discussed in Section B, above, will be reviewed to determine whether or not IDA goals were achieved.

The effect of the initial implementation of IDA procedures on undistributed disbursement and processing delays was substantial. The consolidation of NRFC and AAA functions permitted the establishment of a single data base. As a result, both undistributed disbursements and the time delay between the payment of the vendor's invoice and the recording of the disbursement on the accounting records of the FAA were eliminated. The requirement for the transmission, processing, reconciliation and filing of hard copy documents is no longer required.

The change in procedures illustrated by Exhibits 7 and 8 also permitted direct input of obligation and accounts payable entries by the FAA onto their official accounting records without assistance from the FIPC. This ability was provided by the installation of ADP equipment at FAA locations. In addition to being able to input the above entries onto their accounting records, the equipment enabled the FAA to review their financial status at any time and to receive computer generated summary reports at the push of a button. Copies of input information are no longer forwarded anywhere, but are filed locally. Memorandum records that were maintained for the purpose of ensuring that all transactions forwarded to the AAA were correctly entered on the official accounting records no longer are necessary.

Reconciliation of memorandum records to official accounting records no longer had to be performed.

D. DEGREE TO WHICH IDA GOALS RELATING TO MATERIAL REQUISITION PROCESSING REMAINS UNACHIEVED

The complete implementation of IDA will all but eliminate procurement and BPA transactions as contributing factors to undistributed disbursements and delays in financial information processing. However, imprest fund and referral requisitions continue to contribute to these deficiencies and require further discussion.

Imprest fund transactions were not included in initial IDA procedures. These transactions have been favorably affected. As with procurement and BPA transactions, the FAA comptroller can input obligation and accounts payable information into the official accounting records for imprest fund transactions. This occurs without assistance from the FIPC and without the need for hard copy transmission between activities.

However, the similarity ends there. Procurement and BPA transactions are forwarded to the FIPC for payment and from that point continues under IDA procedures. Vendors' bills for imprest fund transactions are paid locally by the FAA. After the imprest fund is reimbursed by the local Disbursing Office, the paid vendors' bills are forwarded to the Central Disbursing Office (CDO) as part of the daily returns. Prior to IDA, CDO functions were accomplished by the NRFCs. After IDA was implemented, CDO functions continued to be performed by the old NRFC organization, except it was now called a FIPC. Under IDA, CDO functions would not be performed by any FIPC that previously was not an NRFC. Accordingly, imprest fund transaction disbursements are processed, as they were before IDA was implemented, by two separate organizations.

IV. FUTURE PLANS

A. PLANS IN EFFECT TO RESOLVE REMAINING PROBLEM AREAS

IDA, as it applies to the material requisition billing process and to the degree implemented, is successful. In order to fully achieve the primary objective for which IDA was designed, additional procedures will be required. Imprest fund and referral transactions continue to contribute significantly to undistributed disbursements and delayed financial processing. The following sections discuss programs that are in the design or implementation stage to further reduce or eliminate procedural deficiencies.

1. Imprest Fund

Imprest fund transactions were not included in the initial implementation of IDA. As discussed in Chapter III, local Disbursing Offices continued to process all of their disbursements through the old NRFC organization. Exhibit 4 displays the flow of the imprest fund transaction under those procedures. Once the old NRFC organization received the paid vendor's voucher, a disbursement would be processed and forwarded to the FIPC to update the FAA's accounting records.

NAS Pensacola has designed a method by which the local Disbursing Office paying vendors' bills would process the payment through the appropriate FIPC as opposed to the old NRFC organization. A FIPC would process the disbursement and simultaneously update the FAA's accounting records as illustrated in Exhibit 9.

In order for this plan to work, a FIPC would have to absorb an additional NRFC function. The FIPC would become the CDO for all Disbursing Offices within its assigned region. Disbursing Offices would then continue to pay imprest fund transactions and forward those payments through their

new administrative chain. All information would be forwarded initially by computer teleprocessing to the FIPC's integrated data base on a daily basis. Receipt by the integrated data base of payment information would create the appropriate disbursement information, and update of the FAA's accounting records would be automatically generated.

The time-frame in which disbursements are processed and posted to the official accounting records is reduced to a 24-hour basis and related undistributed disbursements are effectively eliminated. This new procedure was approved by NAFC and is scheduled to be effective 1 February 1979 at NAS Pensacola. Specific plans for introducing this change to other FIPC sites has not been determined.

2. Referral Stock Transactions

Referral transactions have been the major contributor to undistributed disbursements and delayed financial information processing. Although specific long range plans to include *referral requisitions* in the IDA process have not been formalized, active discussion concerning how referral transactions might be processed is occurring. The essence of that discussion will be presented in this section.

Exhibit 6 displays the manner referral requisitions were handled. Once the material is issued, an ICP bills on a monthly cycle. The ICP forwards a detailed billing to the appropriate AAA so that the official accounting records of the FAA can be updated with the disbursement.

The ICP also sends a summary billing to the NRFC. The NRFC uses this billing to create a transfer between appropriations that will increase the Stock Fund appropriation and decrease the appropriation containing the FAA's allotment. This disbursement information is sent to the AAA that maintains the FAA's accounting records. The AAA then has to reconcile the information received from the NRFC with the detailed billing received from the ICP to insure that all billings have been processed correctly.

It can take 30-60 days from the time material is issued to the FAA until the billing is processed to the official accounting records. Additionally, the following time consuming circumstances frequently occur that further extends that time-frame to 60-120 days:

- a. Non-receipt of bills by either NRFC or AAA,
- b. Incorrect processing by either NRFC or AAA,
- c. Incorrect billing by the ICP.

The majority of undistributed disbursements related to referral requisitions are caused by the AAA detail processing cut-off date. In order to adhere to the monthly reporting time-frames established by higher authority, early detail processing cut-off dates had to be used. All ICP billings that arrive after the processing cut-off date and prior to the end of the month are labeled as undistributed disbursements. They remain unprocessed until the following month. Elimination of this factor would significantly reduce undistributed disbursements.

Exhibit 10 is general in nature. It is based on discussions between the author and personnel at various Commands (noted in Chapter I) on how referral requisitions might be processed under IDA. Overall IDA design calls for the establishment of a regionalized Financial Information Processing network. The network will essentially include a Central Accounting and Finance Office and 16 FIPCs. ICPs will eventually be included within the network. Each activity within the network will be linked with each other and their respective FAAs by telecommunications terminals. The implementation of the telecommunications system should be completed in Fiscal Year 1981.

When the Financial Information Processing Network is established, an additional NRFC function to be performed by each FIPC will be required. This function consists of the authority to receive ICP billings and process

them as disbursements and transfers between appropriations. As previously noted, this function remained with the NRFC organization that absorbed AAA functions upon becoming a FIPC.

Once the telecommunication link is established and the authority to process ICP billings and transfers between appropriations is assigned to the FIPC, ICP billings could be processed almost as rapidly as they are received. When the ICP billings are received, the disbursement and a transfer between appropriations would be processed. The FAA official accounting records would be simultaneously updated. This action would eliminate undistributed disbursements and significantly reduce financial processing delays.

There is another factor that in conjunction with the above changes could further reduce financial information processing delays. Although this has not been specifically included in the IDA general design, it would have a favorable impact on timely financial information processing. Currently, the ICP's billing process is a monthly cycle. If the ICP could increase the billing frequency, i.e., bill simultaneously with material issue, financial information processing delays could be reduced to insignificant levels. Presently, this subject is only under general discussion at the ICP level. A firm conclusion to making such a change has not been reached.

In summary, under the procedures illustrated in Exhibit 10, the FIPC would not only be able to process ICP billings and update FAA accounting records more rapidly, but would enjoy additional benefits. Since billings would be processed when received, and all information would be retained in the integrated financial management data base, month-end reports could be generated much more rapidly. Previously required early cut-off dates could be eliminated. Monthly reports could be made with the IDA time-frames

previously discussed. Reconciliation of disbursing information received from NRFCs and billings received from ICPs would no longer be required. IDA goals with regard to material requisition billing processing will have been achieved.

V. CONCLUSION

A. SUMMARY

The primary objective of the Integrated Disbursing and Accounting (IDA) concept as it applies to the material requisition billing process is to improve the timeliness and accuracy of financial information for Navy managers and to reduce associated costs. These improvements would primarily come about from a change in operating procedures that would significantly reduce the volume and costs of undistributed disbursements.

The primary procedural change consists of the establishment of a financial information processing network. The network would be made up essentially of Financial Information Processing Centers (FIPC) that would be assigned disbursing and accounting functions previously performed by NRFCs and AAAs. This consolidation of responsibilities would permit the use of an integrated financial management data base to perform both accounting and disbursing functions simultaneously. Many necessary inter-activity processing, reconciling and filing actions would be eliminated.

The initial implementation of IDA for procurement and BPA transaction is successful. The consolidation of disbursing and accounting functions eliminated undistributed disbursements and significantly reduced the processing time for those transactions. Imprest fund transactions continue to be a problem source but corrective procedures are in the process of implementation. When they are implemented, IDA goals with respect to commercial transactions will be fully achieved.

However, referral requisitions are the primary cause of undistributed disbursements and delays in financial information processing. IDA procedures have not been developed for the inclusion of referral transactions

in the ongoing program. Exhibit 10 was developed based on informal communications with the commands listed in Chapter I. It appears feasible that, by assigning the authority of processing transfers between appropriations to FIPCs, undistributed disbursements could be eliminated once the telecommunications network was completed. Until such procedures in this area are developed and implemented, overall IDA goals will not be achieved.

B. RECOMMENDATIONS

Review of IDA procedures as implemented to date, in process of implementation and those in the process of development, results in a discussion of the following three areas:

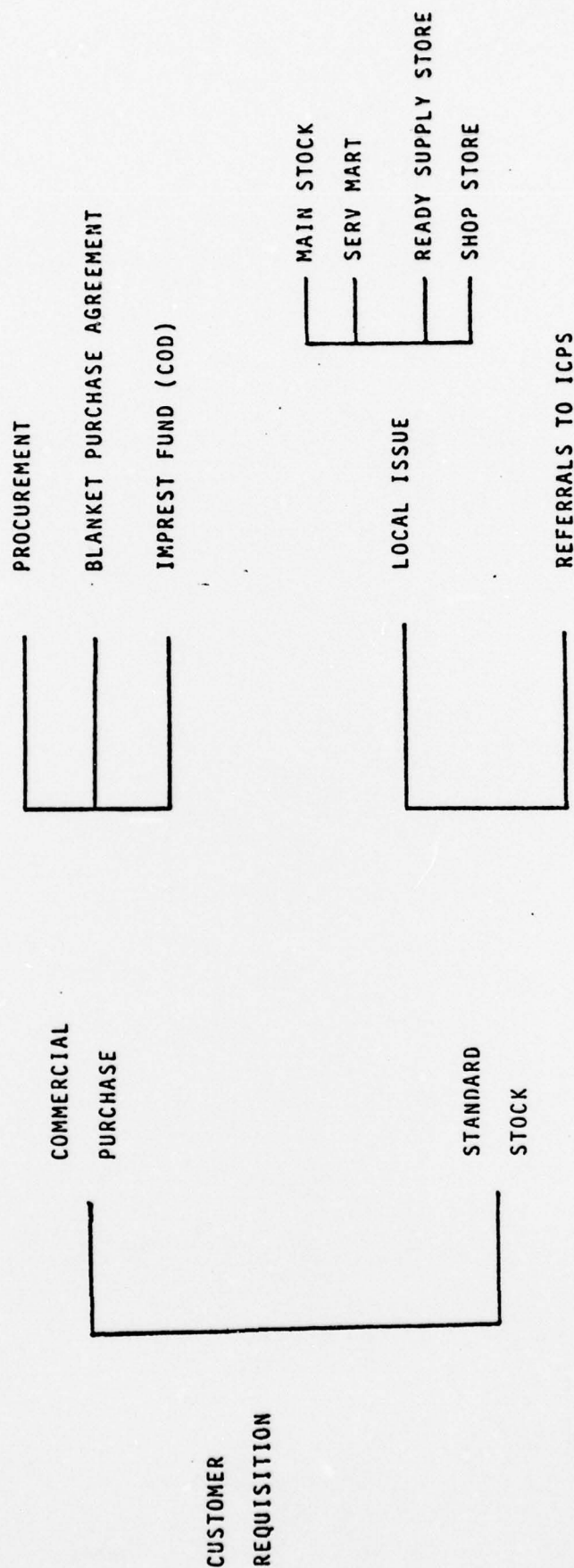
1. Vendors' bills are certified by the FAA and forwarded to the FIPC for payment under procurement and BPA procedures implemented by IDA. In those instances when the FIPC is located in an area away from the FAA, the FAA mails the bill and certification to the FIPC for payment, even though a local disbursing office may serve the FAA. Local disbursing offices are not authorized to pay procurement and blanket purchase agreement billings. Accordingly, a time-frame that approximates mailing time between the FAA and FIPC exists that extends the processing time of the payment of the bill. This time period could be reduced if the local disbursing office was permitted to pay vendor invoices and follow procedure such as the imprest fund procedures currently being implemented. Thus, the FAA's official accounting records could be updated more rapidly than under current procurement and BPA procedures.

2. It was noted in Chapter IV that financial information processing time could be further reduced if the ICP could develop the capability to process billing on a basis more frequent than monthly. Since ICPs will be ultimately included in the financial processing network and will have a

telecommunication with the FIPCs, it would appear that billing simultaneously with the material issue would be a reasonable possibility. It is recommended that consideration be given to developing such a capability.

3. Referral requisitions are the major contributor to undistributed disbursements and delays in financial information processing. To date, a firm plan of long-range action to include referral transactions under IDA procedures has not been developed. However, a financial information network that would be necessary to implement such a plan is being established. It is recommended that consideration be given to developing the procedures that would include referral requisitions under the IDA process. Such an inclusion would enable the goals and objectives of the IDA program as they apply to the material requisition billing process to be fully achievable.

EXHIBIT 1 - TYPES OF MATERIAL REQUISITIONS



This Chart represents the various types of material requisitions that exist within the Supply function as used by a Fund Administering Activity.

EXHIBIT 2 - PRE IDA PROCUREMENT

FUND ADMINISTERING ACTIVITY

	ORDERING DEPARTMENT	SUPPLY	COMPTROLLER	VENDOR	NRFC	AAA	FIPC
<u>Material Ordered</u>	Takes requisition to Supply.	Decides procurement, sends order to vendor, copy of order maintained in Supply for receipt control, copy of order to Comptroller for obligation to AAA.	Receives copy of order sends copy to AAA for obligation on official accounting records. Files copy.	Receives order, ships material, sends invoice to FAA.	--	Receives copy of purchase order, inputs obligation on official accounting records.	--*
<u>Material Received</u>	Receives material	Receives material, delivers to ordering department, matches receipt copy with purchase order, sends copy of receipt document to Comptroller for accounts payable to AAA, awaits invoice.	Receives copy from Supply, sends copy to AAA for accounts payable on official accounting records. Files copy.	--	--	Receives copy of receipt document from Comptroller, establishes accounts payable on official accounting records.	--*
<u>Invoice Received, Certified and Paid.</u>	--	Receives invoice, matches with receipt document, certifies for payment and sends to NRFC for payment. Sends copy to Comptroller for internal purposes.	Receives copy of certification, reviews official accounting records to ensure accounts payable is sufficient, if not, update is made. Files copy. When disbursement processed by AAA, put whole package in completed file.	Payment received.	Receives certified invoice, sends information to AAA so FAA's official accounting records can be finalized with disbursement.	Receives information from NRFC and processes disbursement to AAA.	--*

*FIPC not in existence.

EXHIBIT 3 - PRE IDA BLANKET PURCHASE AGREEMENT

FUND ADMINISTERING ACTIVITY

	ORDERING DEPARTMENT	SUPPLY	COMPTROLLER	VENDOR	NRFC	AAA	FIPC
<u>Material Ordered</u>	Takes requisition to Supply.	Decides BPA, calls vendor and places order, retains copy of order for receipt control and sends copy to Comptroller for obligation.	Receives order from Supply, sends copy to AAA to establish obligation on official accounting records. File copy	Receives order, delivers material, sends monthly invoice with for all orders processed during the month.	--	Receives copy of purchase order, input obligation on official accounting records.	--*
<u>Material Received</u>	Receives material.	Receives material and delivers material to ordering department, matches receipt copy with purchase order, sends copy to Comptroller to establish accounts payable with AAA, awaits invoice.	Receives receipt copy from Supply, sends copy to AAA, to establish accounts payable on official accounting records.	--	--	Receives copy of receipt documents, inputs accounts payable on official accounting records.	--*
<u>Invoice Received, Certified and Paid.</u>	--	Receives monthly invoice, matches with receipt documents, certifies for payment, sends to NRFC for payment, sends to Comptroller for internal purposes.	Receives copy of certification, reviews official accounting records to ensure accounts payable are accurate. If not, update is made. Files copy. When disbursement processed by AAA, put whole package in completed file.	Receives payment	Receives certified monthly invoice, sends information to AAA so FAA's official accounts can be finalized with a disbursement.	Receives information from NRFC and processes disbursements onto official accounting records.	--*

* FIPC not in existence.

EXHIBIT 4 - PRE IDA IMPREST FUND

FUND ADMINISTERING ACTIVITY

	ORDERING DEPARTMENT	SUPPLY	COMPTROLLER	VEHIDOR	NRFC	FAA	FIPC
<u>Material Ordered</u>	Take requisition to supply, receives funds from Supply.	Decides Imprest Fund, Call vendor and places order, gives customer sufficient funds to pay for order and sends him to pick up material.**	--	Receives order from supply, gives material to customer and receives payment from ordering department at that time.	--	---	--*
<u>Material Received, Invoice Paid.</u>	Picks up material from vendor, pays for material, returns receipt and paid invoice to Supply.	Receives receipt for material and paid invoice from ordering department, sends copy of order and receipt document to Comptroller to establish obligation and accounts payable. On a periodic basis fund is replenished by Disbursing Office which forwards invoices to NRFC as part of disbursing office returns.	Receives copy of order and receipt documents from supply and forwards copy to AAA for input of obligation, and accounts payable in official accounting records. Files copy and awaits disbursement.	--	Receives returns from Disbursing Office and processed information to AAA so disbursement may be processed onto FAA's official accounting cycle with disbursement on FAA's records.	Receives copy of order and receipt document from Comptroller, inputs obligation and accounts payable to official accounting records. Receives disbursement information from NRFC and completes accounting cycle with disbursement on FAA's records.	--*

* FIPC not in existence.

**Sometimes the vendor will deliver the material to the Supply Department and will be paid at that time. Delivery may be made by the vendor or some other party, i.e. UPS. The Supply Department then delivers the material to the customer.

**EXHIBIT 5 - PRE IDA LOCAL ISSUES
(MAIN STOCK, SERV MART, READY SUPPLY STORES, SHOP STORES)**

	FUND ADMINISTERING ACTIVITY			AAA
	ORDERING DEPARTMENT	SUPPLY	COMPTROLLER	
Material Ordered and Issued	Take requisition to Supply. receive material.	Issue material to ordering department, process billing through the stock fund which automatically causes a commitment, obligation, accounts pay- able, and disbursement to be sent to the AAA for processing onto official accounting records.	No action required. Com- mitment, obligation, ac- counts payable and dis- bursement are automatically processed from supply inputs to AAA on a bi-weekly basis.	Action not re- quired by AAA since official accounting re- cords are auto- matically updated by Supply computer generated inputs.

EXHIBIT 6 - PRE IDA REFERRAL TRANSACTIONS

FUND ADMINISTERING ACTIVITY				
ORDERING DEPARTMENT	SUPPLY	COMPTROLLER	INVENTORY CONTROL POINT	FIPC
Material Ordered	Take Requisition to ICP. This action automatically causes a commitment to be processed onto the official accounting records.	No action required, commitment information not supported by hard documentation.	Receives referral, issues instructions to stock point for material to be issued.	AAA NRFC FIPC
Material issued and received	Receives material and delivers to ordering department. Sends receipt copy to Comptroller.	Sends copy of receipt document to AAA for input as accounts payable. Files copy and awaits disbursement. When disbursement processed, transaction is complete.	When material is issued a monthly bill- ing is sent to the AAA with a copy to the NRFC.	When billing is received from ICP, a transfer of funds is pro- cesses and is sent to the AAA to insure that all billings re- ceived and pro- cesses by NRFC information is received from NRFC, it is recon- ciled to bill- ings that have been processed to insure that all billings have been pro- cesses.

EXHIBIT 7 - POST IDA PROCUREMENT

FUND ADMINISTERING ACTIVITY

ORDER- ING DEPART- MENT	SUPPLY	COMPTROLLER	VENDOR	NRFC	AAA	FIPC
<u>Material Ordered</u>	Take Re- quisition to Supply Decide procure- ment, send to vendor, retains copy of order in supply for receipt control, sends copy to comptroller for obligation.	Receives copy of order, from sup- ply, inputs ob- ligation to FIPC via computer, files copy.	Receives order, ships material, sends in- voice to FAA.	--	--	Official accounting records updated by computer by FAA.
<u>Material Received</u>	Receives materi- al, delivers to ordering depart- ment, matches receipt copy with purchase order, sends copy to comp- troller for accounts pay- able to FIPC, awaits invoice.	Receives copy of receipt document, inputs accounts payable to FIPC via computer, files copy.	--	--	--	Official accounting records updated by computer by FAA.
<u>Invoice Received, Certified, and Paid</u>	-- Receives invoice, matches with re- ceipt documents, certifies for payment, and sends to FIPC for payment. Send copy to Comptroller for internal purposes.	Receives certifi- cation, reviews official account- ing records by computer to in- sure accounts payable is suf- ficient for each receipt. When ex- penditures pro- cessed by FIPC, file as completed transaction.	Receives payment.	--	--	Receives certification, pays invoice, inputs disbursement to official accounting records.

EXHIBIT 8 - POST IDA BLANKET PURCHASE AGREEMENT

FUND ADMINISTERING ACTIVITY

	ORDER- ING DEPART- MENT	SUPPLY	COMPTROLLER	VENDOR	NRFC	AAA	FIPC
<u>Material Ordered</u>	Takes re-quisition to Supply.	Decides BPA, calls vendor and places order, retains copy of order for receipt to control and sends copy to Comptroller for obligation.	Receives order, inputs obligation to FIPC via computer, files copy.	Receives order, ships material, sends monthly invoice.	--	--	Official accounting records are updated by computer by FAA.
<u>Material Received</u>	Receives material.	Receives material, delivers to ordering department, matches receipt copy with purchase order, sends copy to Comptroller for accounts payable to FIPC, awaits monthly invoice.	Receives copy of receipt document, accounts payable to FIPC via computer, files copy.	--	--	--	Official accounting records updated by computer by FAA.
<u>Invoice Received Certified and Paid</u>	--	Receives monthly invoice, matches all receipt documents, certifies for payment and sends to FIPC for payment. Send copy to Comptroller for internal purpose.	Receives certification, reviews official accounting records by computer to insure accounts payable is sufficient for each receipt. When expenditure processed by FIPC, file as completed transaction.	Receives payment.	--	--	Receives certification, pays invoice, inputs disbursement to official accounting records.

EXHIBIT 9 - POST IDA PLANNED IMPREST FUND PROCEDURES

FUND ADMINISTERING ACTIVITY				
ORDERING DEPT.	SUPPLY	COMPTROLLER	VENDOR	*FIPC
Material Ordered	Take requisition to supply, receives funds from Supply to pay for material.	Decides imprest fund required, calls vendor and places order, gives customer sufficient funds to pay for order and sends him to pick up material.	--	--
Material Received. Invoice Paid.	Picks up material from vendor, pays for material, returns receipt and paid invoice to Supply.	Receives receipt for material and paid invoice from ordering department. Send copy of each to Comptroller. On periodic basis, imprest fund is replenished by disbursing office which inputs information by Computer to FIPC and then sends daily returns to the FIPC.	Receives order from supply, gives material to customer, and receives payment from customer at that time.	--
		Receives copy of order and receipt documents from Supply and inputs obligation and accounts payable onto official accounting records, files a copy and awaits disbursement action.	--	Official accounting records are updated with obligation and accounts payable via computer by FAA. Disbursement is processed by computer by disbursing office local input.

*Under a program currently in the process of implementation, NAS Pensacola, will become the central disbursing office for disbursing offices within its region in place of NRFC, Norfolk. At that time, local Disbursing Offices will send their disbursing returns to NAS, Pensacola, the FIPC for the region, first by computer, followed by hard copy. Computer input will automatically update the official accounting records with the disbursement transaction. Computer inputs by the Disbursing Office will be made on a daily basis.

EXHIBIT 10 - REFERRAL REQUISITIONS - LONG RANGE PROPOSED PROCEDURES

FUND ADMINISTERING ACTIVITY				INVENTORY CONTROL POINT	FIPC IN AREA OF ICP	FIPC FOR FAA
ORDERING DEPT.	SUPPLY	COMPTROLLER				
<u>Material Ordered</u>	Take re- quisition to Supply department. Refer requisition to ICP. This action auto- matically causes a commitment to be pro- cessed onto the official accounting records.	No action required. Commitment informa- tion is not supported by hard copy docu- mentation. Commit- ment is processed automatically through the supply referral process.	Receives referral, issues instructions for material to be issued.	--	--	--
<u>Material issued and received</u>	Receives material. Receives material and delivers it to customer. Sends receipt copy to comptroller.	Process accounts payable onto official accounting records by computer. File receipt documents and await disburse- ment processing by the FIPC. When disbursement is pro- cessed, documents go into completed transaction file.	Upon issue of material, process a related billing and forward by tele- communication to area FIPC.	Receives daily billing from ICPs within area and sends them via telecom- munications to FIPC serving the customer billed.	Receive billings from various FIPC's for those FAA's within area, and processes simul- taneously the trans- fer of funds between appropriations at the appropriation level and the dis- bursement onto the official accounting records at the allotment level.	

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